EMPLOYEE TRUST IN GENERAL MANAGER AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES

BY

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DEDICATION

I dedicate this thesis to my caring mother, my lovely wife and my cheerful children.

Mum, you are the greatest woman in my life. You had painted my life with the colors of rainbow and provide us with all the necessary we need to live on.

My wife, Hoon, you are my greatest love in my life. You had shared my thoughts, my pains and the hard time together with me. You are always with me to go on in the universal world and our love will never end.

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KEPERCAYAAN PEKERJA TERHADAP PENGURUS BESAR DAN PRESTASI PERNIAGAAN KECIL DAN SEDERHANA

ABSTRAK

Kajian ini bertujuan untuk meninjau sifat organisasi dalaman berasaskan teori sumber asas, khasnya pengurus besar yang boleh dipercayai, sebagai satu strategi perniagaan kecil dan sederhana supaya kelebihan persaingan boleh dikekalkan. Di samping itu, kajian ini berusaha untuk menentukan faktor-faktor kebolehpercayaan di mana alternatif-alternatif boleh dirujuk untuk mempengaruhi tahap kepercayaan pekerja terhadap pengurus besar. Setakat ini, sokongan-sokongan empirikal yang menghubungkaitkan kebolehpercayaan bagi seseorang pengurus besar dengan faktor-faktor kebolehpercayaan, di mana pengurus besar yang boleh dipercayai akan menghasilkan kelebihan persaingan yang kekal berasaskan teori sumber asas masih kekurangan. Kajian ini telah mengenalpastikan jurang daripada sorotan karya pengurusan strategi dan terus merangkakan satu model konsep. Model ini diguna untuk mengkaji perhubungan antara faktor-faktor kebolehpercayaan dan pengurus besar yang dipercayai, dan seterusnya prestasi syarikat. Kajian ini telah dilaksanakan pada perniagaan-perniagaan kecil dan sederhana di Semenanjung Malaysia. Sejumlah 107 syarikat-syarikat telah menyertai kajian ini. Data adalah dikumpul dengan penghantaran soal-selidik melalui pos berdasarkan persampelan mudah. Keputusan analisis data yang terkumpul dari Semenanjung Malaysia menunjukkan faktor kebolehan pengurus adalah penentu yang signifikan dan hubungkaitnya adalah positif berbanding dengan faktor-faktor kebolehpercayaan yang lain, seperti murah hati, integriti, kuasa rasmi dan tak rasmi, kepimpinan penyertaan, dan keterbukaan. Selain

itu, hubungan antara pengurus besar yang dipercayai dengan kadar tukar-ganti pekerja dan seterusnya komitmen syarikat adalah penentu yang signifikan, kecuali prestasi kewangan. Akhirnya, kajian ini menunjukkan seseorang pengurus besar mesti mempunyai tanggapan sifat-sifat pengurus yang baik dan memainkan peranan yang penting dalam pembentukan organisasi berkebolehpercayaan serta berupaya meningkatkan prestasi syarikat. Ia memberi implikasi bahawa penawaran pengurus besar mesti diberi kepada mereka yang mempunyai tanggapan sifat-sifat pengurus semulajadi yang baik dan muda dengan umurnya dalam lingkungan 40 tahun.

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ABSTRACT

The purpose of the research is to investigate the internal organizational characteristics underlying resource-based view, more specifically a trusted general manager, as a strategy leading to sustainable competitive advantage for small and medium enterprises. Also, the research attempts to determine the trust antecedents that provide general manager alternatives to influence the level of employees' trust toward them. However, there is relatively little empirical evidence to support trust in general manager in terms of resource-based view explanations of organizational performance and sustainable competitive advantage. A framework was developed to address these gaps from past literature in strategic management in order to explore the relationships between trust antecedents and trust in general manager, and subsequently to the organizational performance. The research was conducted on small and medium enterprises in Peninsular Malaysia. A total of 107 enterprises participated in the research. Data was collected through mail survey based on a convenience sample. Using the collected primary data, the research indicated perceived managerial ability was a significant predictor and positively related with trust in general manager among other antecedents, such as benevolence, integrity, discretion and power, participative leadership style and openness. Also, trust in general manager was a significant predictor to organizational commitment and employee turnover, but not in the case of financial performance. Finally, a trusted general manager should possess strong perceived managerial characteristics and play an important role in order to enhance

organizational trust and performance. The research implied that firms should appoint younger general managers with strong perceived managerial characteristics, who were in their forties.

CHAPTER 1

INTRODUCTION

1.0 Introduction

A trusted general manager is an internal organizational characteristic that essentially leads to a competitive advantage for firms (Davis, Schoorman, Mayer & Tan, 2000). The creation of competitive advantage rests on relational tools that are the ways of doing business, both on firms' internal and external environments (Landry, Amara & Lamari, 2002). With less trust in employer, employees may not perform effectively and cope with the breathtaking condition of interdependency in a less hierarchical organization (Gilbert & Tang, 1998).

Empirically, trust for general manager found to be related to increased sales, increased profitability, employee turnover, job satisfaction and organizational commitment (Argyris, 1964; Davis et al., 2000; Gambetta, 1988; Hosmer, 1995; Koustelios & Bagiatis, 1997; Lawler, 1992; Mayer & Schoorman, 1992; Murphy, 2002; Nyhan, 2000; Oliver, 1990; Powell, 1990; Rich, 1997; Robbins, 2003; Uzzi, 1997). Also, the level of trust for general managers may differ based on employees' perception on their managerial characteristics such as ability, benevolence, integrity, consistency, perceived discretion and power, participative leadership style and openness (Bauer & Green, 1996; Brockner, Siegel, Daly, Tyler & Manin, 1997; Butler, 1991; Carpenter & Golden, 1997; Cook & Wall, 1980; Costigan, Ilter & Berman, 1998; Davis et al., 2000; Gabarro, 1978; Hosmer, 1995; Jones, James & Bruni, 1975; Korsgaard, Schweiger & Sapienza, 1995; Lieberman, 1981; Magnan & St-Onge, 1997; Mayer, Davis & Schoorman, 1995; McAllister, 1995; Nyhan, 2000; Ridings, Gefen & Arinze, 2002; Whitener, Brodt, Korsgaard & Werner, 1998).

Thus, this study is to investigate the internal organizational characteristics, more specifically on trust in the general manager, as a strategy leading to sustainable competitive advantage for high performing small and medium enterprises. Furthermore, trust is a valuable, rare, imperfectly imitable and not substitutable resource or capability for firms (Barney, 1991; Barney, Wright & Ketchen, 2001).

1.1 Background of Study

The traditional strategic approaches, such as cost leadership and differentiation, are no longer providing the ability for organizations to react or adapt in a timely manner (McGivern, 1998). Contemporary literature suggests that human capital is becoming a critical element of firms' success (Davis et al., 2000). For example, a trusted general manager can foster employees to perform highly and consequently lead to higher organizational performance.

Trust becomes critical in managerial personal growth and development as well as in task performance. As normally observed, general managers who gained high trust from employees, would have their company outperform other companies. In addition, Chan (1997) asserted that trust is crucial to accurate communication and distrust in the superiors to be associated with information distortion or withholding. Thus, trust was found to significantly influence managerial problem-solving effectiveness (Boss, 1978). Consequently, mutual trust between superior and subordinate is vital to commitment that results in greater organizational effectiveness (Chan, 1997) and leads to sustainable competitive advantage. Based on the criteria for sustainable competitive advantage, trust is valuable, rare, imperfectly imitable and not substitutable (Barney, 1991; Barney et al., 2001). Thus, trust is an organizational capability that is proffered as a strategic resource for developing sustainable competitive advantage (Barney & Hansen, 1994).

1.2 Research Problem

According to Nyhan and Marlowe (1997), trust is linked to individual human behavior, effective group and organization functioning. The key value of trust allows organizational members to reduce uncertainty and complexity at workplace. Essentially, when work colleagues trust one another and the organization as a whole, the range of uncertain futures is restricted to a more manageable number. Without trust, the complexity of contingent futures will paralyze future action (Nyhan & Marlowe, 1997) because distrust may degrade the spirit of teamwork.

Contemporary literature recognizes various processes and theoretical constructs for trusting relationships, either in the context of superior-subordinate's trust or organizational trust. But, there is still limited literature on the antecedents of general managers' trustworthiness as a strategy driven organizational development in small and medium enterprises (Barney & Hansen, 1994; Chakraborty, 1997; Davis et al., 2000). At the moment, the antecedents of trusted general manager that have been studied by Davis et al. (2000) and Hosmer (1995) concentrate more on the ability, benevolence and integrity of general managers. In fact, there are still more antecedents of trust in general manager that can be considered to build employees' trust on the general manager so that employees can perform excellently. This should subsequently lead to higher organizational performance. Those trust antecedents of general managers should be considered are consistency (Chakraborty, 1997; Mayer et al., 1995), managerial perceived discretion and power (Carpenter & Golden, 1997), participative leadership style (Costigan et al., 1998; Nyhan, 2000) and openness

(Hosmer, 1995). In addition, the relationship between trust in general manager and organizational performance has not been investigated in Malaysia. Since trust in general manager by employees posits as a prospective source of competitive advantage, the research problem of this study is to discover trust in general manager that influenced by those trust antecedents can eventually enhance the organizational performance.

1.3 Research Question

The purpose of this study is to investigate the trusted general manager as an embedded organizational characteristic that provides a competitive advantage for the firm. Thus, the questions for this research are:

i. What are the antecedents of a trusted general manager in small and medium enterprises that employees can accept and be motivated to perform excellently?

ii. As a trusted general manager is linked between business context and individual employee actions, does a trusted general manager enhance the organizational performance in small and medium enterprises?

1.4 Research Objective

The objective of this research is to examine trust for general manager whether can be enhanced by trust antecedents and to investigate the internal organizational characteristics, more specifically a trusted general manager, as a strategy leading to sustainable competitive advantage for small and medium enterprises. Trust is posited as a resource or capability for sustainable competitive advantage because it is valuable, rare, imperfectly imitable and not substitutable (Barney, 1991; Barney & Hansen, 1994; Barney et al., 2001; Davis et al., 2000). Specifically, the objectives are:

i. to examine whether trust in general manager can be enhanced by the trust antecedents, namely perceived managerial ability, benevolence, consistency, integrity, managerial perceived discretion and power, participative leadership style, and openness.

ii. to determine the causal connections between trust in general manager and organizational performances, namely sales growth, profitability, employee turnover rate, job satisfaction and organizational commitment.

1.5 Significance of Research

This research is significant in two ways, that:

i. The research provides alternatives for a general manager to influence trust by looking at various trust antecedents. Obviously, the research reveals the preferable managerial characteristics in order to shape a trusted general manager. As small and medium enterprises are urged to transform and modernize from family businesses to more professionally managed entities, understanding the trust antecedents and also the connection to performance will be highly and timely reminder to small and medium enterprises when employing managers because trust is mainly maintained via family ties and nepotistic employment.

ii. The research provides clear relationship between trust level for a general manager and the organizational performance. Trust is posited as a strategic resource that can be advanced an important component of organizational capital that cannot be imitated by others.

1.6 Scope of Research

The scope of this research covers the followings:

i. Unit of analysis is small and medium enterprises from various industries that available from SMI Business Directory (2004) and the website of SMIDEC.

ii. The subject is the small and medium enterprises with number of employees less than or equal to 150 in Peninsular Malaysia, that encompassing Penang, Perak, Kedah, Selangor, Negeri Sembilan, Pahang, Malacca and Johore.

iii. The research is to investigate trust for general manager can be enhanced by trust antecedents that subsequently strengthen the organizational performance.

1.7 Definition of Key Terms

This section briefly summarizes the key variables in this research. The key variables are practically defined as:

i. General manager refers to one who has overall responsibility for the company's general affairs.

ii. Small and medium enterprise refers to an enterprise with not more than 150 full-time employees (SMI Business Directory, 2004).

iii. Small enterprise refers to an enterprise with not more than 50 full-time employees (SMI Business Directory, 2004).

iv. Medium enterprise refers to an enterprise that has ranged from 51 to 150 full time employees (SMI Business Directory, 2004).

v. Ability refers to group of skills, attributes and competencies that enable a leader to have influence in a certain area (Davis et al., 2000; Ridings et al., 2002).

vi. Benevolence refers to the expectation that the general manager will do good to the workers (Davis et al., 2000; Ridings et al., 2002).

vii. Consistency refers to the aspect of consistency which is on the reliability or predictability of a general manager's behavior over time and across situations (Mayer et al., 1995).

viii. Integrity refers to the reputation for honesty and trustfulness on the part of the trusted individual, i.e., the general manager (Hosmer, 1995).

ix. Managerial Perceived Discretion and Power refers to managers' ability to affect important organizational outcomes and the ability to influence others, which is important due to the ambiguity and uncertainty surrounding strategic issues (Carpenter & Golden, 1997).

x. Participative leadership means managers are willing to involve employees in decision making and employees perceive that their involvement is meaningful (Nyhan, 2000).

xi. Openness is a mental accessibility or the willingness of managers to share ideas and information freely with others (Hosmer, 1995).

xii. Trust refers to the willingness of a worker or subordinate to accept certain risks in a relationship with a general manager or vulnerable to a general manager (Mayer et al., 1995).

xiii. Sales growth refers to increase in sales over the previous year (Davis et al., 2000).

xiv. Profitability refers to the surplus of sales revenue over the costs in operating the company (Davis et al., 2000).

xv. Employee Turnover refers to voluntary and involuntary permanent withdrawal of staffs from the organization (Robbins, 2003).

xvi. Job Satisfaction refers to a general attitude toward one's job (Robbins, 2003), i.e., feelings of comfort, elation or positive disposition towards the organization or work environment.

xii. Organizational commitment is a strong belief in or acceptance of the organization's goals and values, and willingness to expand energy and thought for organizational improvement (Nyhan, 2000; Robbins, 2003).

1.8 Organization of Chapters

The thesis is organized into five chapters. Chapter one to five present introduction, literature review, methodology, result, discussion and conclusion respectively. Chapter one describes the research's background, problem, question, objective, significance and scope. The chapter ends with the definition of key variables. Chapter two presents the literature review of the research. The chapter reviews the past researches from various perspectives. The literatures are the backbone of this research to help construct the research framework. The chapter covers the literatures on sustainable competitive advantage, small and medium enterprises, organization and strategy, trust, antecedents of trust, trust and performance, and organizational performance. Lastly, the chapter ends with the conceptual research framework and hypotheses. Chapter three illustrates the research methodology, design, data collection, population and sample, the organization of questionnaire and statistical analysis. Chapter four shows the results of the research. The chapter deals with data analysis and findings, response rate, profile of respondents, followed by goodness of measures, modified conceptual framework and hypotheses, descriptive statistics, correlation, and regression analysis was used for test of hypothesis. Chapter five discusses and concludes the whole research. The chapter begins with recapitulation of the research findings. It is followed by discussion, implication, limitation, suggestion of future research, and conclusion for the research.

CHAPTER 2

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

2.0 Literature Review and Conceptual Framework

This chapter summarizes the past literature pertaining to the underlying theory and the relevancy of variables in this research. In the end of chapter, a conceptual framework and presumed hypotheses are presented.

2.1 Resource-based Theory of Sustained Competitive Advantage

The underlying theory of this research is on resource-based theory of sustainable competitive advantage strategy. The resource-based theory is an essential rising theory of firm heterogeneity (Fahy, 2000). The trail of competitive advantage is the main topic in the strategic management literature (Coyne, 1986; Ghemawat, 1986; Porter, 1985; Williams, 1992). Resource-based view focuses on firm heterogeneity that departs from neo-classical microeconomics (Hill & Deeds, 1996). The view assumes the organizational leaders being rationale on making decisions that maximize their self-interests (Fahy, 2000). Thus, the view generalizes the theory of the firm (Mahoney & Pandian, 1992). The main contribution of the resource-based view of the firm has been as a theory of competitive advantage (Fahy, 2000). It assumes the desired outcome of managerial effort within the firm is a sustainable competitive advantage (Fahy, 2000). Achieving a sustainable competitive advantage allows a firm to gain above average returns. In addition, Barney (2001) and Srivastava, Shervani and Fahey (1998) mentioned that those firms build their strategies on intangible assets outperform firms that build their strategies only on tangible assets. For example, some important firm capabilities, included trust, reputation, the ability of managers to work together, etc., many of which have been reviewed in the contemporary strategy literature (Day, 1994; Hall, 1992). These literatures were in views of resource-based theory related to sustainable competitive advantage. Hence, the resource-based theory stresses strategic choice, that firm's management has a high responsibility to identify; develop and deploy key resources to maximize returns (Fahy, 2000).

The resource-based theory of the firm has risen as a prevalent theory of competitive advantage, which originated from Wernerfelt (1984). According to Fahy (2000), the earliest tribute of firm-specific resources had pointed to the importance of firm heterogeneity and proposed that the unique assets and firms' capabilities were key factors to imperfect competition and attainment of above average profits. Day and Wensley (1988) focused on two categorical sources involved in creating a competitive advantage: superior skills and superior resources. Meanwhile, Barney (1991) elaborated that firm resources hold the potential of sustainable competitive advantage when the resources possess the attributes of rareness, value, inability to imitate, inability to be sustained. These resources and capabilities can be tangible and intangible assets, including management skills, organizational processes and routines, information flow and knowledge (Barney et al., 2001). In addition, Hunt and Morgan (1995) argued that potential resources could be most usefully categorized as financial, physical, legal, human, organizational, informational and relational. Consequently, Prahalad and Hamel (1990) suggested that firms combine their resources and skills into core competencies, loosely defined as that which a firm does distinctively well in relation to competitors. Hence, the competitive advantage of firms rests on distinctive processes (e.g., ways of coordinating and combining), firm specific capabilities (knowledge, trust, etc.), and the evolution paths it has adopted or inherited (Teece, Pisano & Shuen, 1997). For instance, business networks consisted of multiple relationships, with each participating firm gaining the resources needed to build core competencies and obtain a sustainable competitive advantage (Hoffman, 2000).

Holmstrom and Tirole (1989) specify that any theory of the firm must explain both why firms exist and what determines their size and scope. From the resource-based perspective, firms exist because of the opportunity to benefit from efficiencies created by asset interdependencies within the firm (Fahy, 2000). Size and scope can be considered to be a function of resource endowments and the resource-based view in terms of performance difference between firms (Conner, 1991; Lippman & Rumelt, 1982).

Alderson (1965) and Day (1984) suggested types of strategies that firms should strive for unique characteristics in order to distinguish themselves from competitors and sustain competitive advantage. Also, Hall (1980) and Henderson (1983) solidified the need for firms to possess unique advantages in relation to competitors if they are to survive. Porter (1985) discussed the basic types of competitive strategies firms can possess (low cost or differentiation) in order to achieve sustainable competitive advantage and introduced idea of the value chain as the basic tool for analyzing the sources of competitive advantage. Furthermore, Hamel and Prahalad (1989) and Dickson (1992) highlighted the need for firms to learn how to create new advantages that differentiate themselves from competitors. Consequently, Barney (1991) defined that a firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy with prolong benefits (Hoffman, 2000). In brief, sustainable competitive advantage is defined as having a superior marketplace position relative to competitors (Barney, 1991;

Ivancevich & Lee, 2002) with long-term above average returns on the total costs of running an enterprise and based on inimitability (Chakraborty, 1997; Hoffman, 2000; Lippman & Rumelt, 1982). At times, advantages based on resources can be sustained because the causes and processes contributory to those advantages are not very well understood by either the successful firm or its rivals (Chakraborty, 1997). Hence, causal ambiguities exist regarding the sources contributing to success (Chakraborty, 1997; Eisenhardt & Martin, 2000; Teece et al., 1997).

Finally, the internal block of organizational context is particularly important to create a resource-based sustainable competitive advantage within a global setting. Individual characteristics (e.g., trust) and individual groups (e.g., general manager) of advantages are often fully capable of providing sustainable competitive advantages on their own (Chakraborty, 1997), in which a general manager has a high responsibility to identify, develop and deploy critical resources to maximize returns (Fahy, 2000). In addition, Peteraf (1993) stresses that few conditions that must be met for sustainable competitive advantage, which are superior resources (heterogeneity within an industry), imperfect duplicability, imperfect substitutability and imperfect resource mobility. However, the most sustainable form of advantage can combine all of these characteristics in a way that is inextricably inter-linked and each influences the others in the creation, development and extraction of advantage distinctive to its make-up (Barney, 1991; Chakraborty, 1997; Prahalad & Hamel 1990).

2.2 Small and Medium Enterprises (SMEs)

SMEs are heterogeneous in nature and operated in various settings (Hashim, 2000). SMEs play an essential role in shaping the nation's industrial future (Zulkifli & Jamaluddin, 2000). Hitt, Ireland and Hoskisson (2001) restate that SMEs contribute a significant share of innovative activity and the technological progress. In Malaysia, SMEs constitute about 92 percent of the total 690,000 registered companies as declared in Economic Report 2003/2004 (Economic Review, 2004). SMEs provide more than one third of the total employment in the country (SMI Business Directory, 2004). As Malaysia has been transformed from a commodity-based country to industrialization, SMEs play a significant supportive role in the country’s industrialization effort.

The definitions of SMEs are varied and inconsistent from country to country. Hashim (2000) stated that there were about 60 different definitions of SMEs in 75 countries. The definitions differed in terms of firm size and certain adopted criteria. As defined by SMI Business Directory (2004), SMEs are companies with less than 150 full time employees and annual sales turnover less than RM25 millions. The SMEs can be further classified into two scales. The first is the small-scale enterprises with less than 50 full time employees and has an annual sales turnover of less than RM10 millions. The second is the medium-scale enterprises with 51 to 150 full time employees and has an annual sales turnover between RM10 to RM25 millions (SMI Business Directory, 2004).

Among the factors for the growth of job creation and economic productivity in SMEs are the greater amounts of flexibility, niche-filling capabilities, resourcefulness and agility that these enterprises possess in contrast with large organizations (Hitt et al., 2001; Dean, Brown & Bamford, 1998). In addition, SMEs frequently make the first move to competitive challenges, which are speedier and more secretive in executing the challenges. Collectively, SMEs are rapidly becoming an important part of the mainstream economy and business activity for many countries (Anna, Chandler, Jansen & Mero, 2000).

Most researches stated that SMEs tend to outperform large organizations in terms of innovation (Busenitz, 1997; Dean et al., 1998; Ehrenberg & Smith, 2000; Hashim, 2000; Huang, 2003; Menkhoff & Kay, 2000; Zulkifli & Jamaluddin, 2000). The increased level of innovation capability that SME managers possess is at least partly a function of their tendency to use more heuristics in making decisions than do those managers of large organizations (Busenitz, 1997; Nijhof, Krabbendam & Looise, 2002). Thus, this enhances dynamic capabilities of SMEs that having the capacity to renew competences, and appropriately adapt, integrate and reconfigure internal and external organizational skills, resources and functional competences to match the requirements of a changing environment (Teece et al., 1997).

In the context of turbulent business environment, such as the world financial crisis in 1997, most SMEs exercised downsizing and reengineering that moved many workers to become mistrusting and suspicious of management. Mistrust of management had sparked an "us-against-them" syndrome that may potentially interfere with individual performance (Gilbert & Tang, 1998). Thus, developing employee trust in this context is crucial and becomes an increasingly important subject for managers.

2.3 Organization, Strategy and Competitive Advantage

A strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage (Hitt et al., 2001). Strategies are purposeful, precede the taking of actions to which they apply, and demonstrate a shared understanding of a firm's strategic intent (Slevin & Covin, 1997). Hamel and Prahalad (1989) further elaborated that strategic intent is the leveraging of a firm's internal resources, capabilities and core competencies to achieve firm's goals in a competitive environment. When established effectively, a strategic intent can cause people to perform in ways they never imagined possible (Sherman, 1995).

D'Aveni (1994) stated that a firm gaining competitive advantage over the long run has been under attack due to mass imitations, counter-attacks, and weakening entry barriers in a dynamic environment. Now, markets are shifting towards perfect competition, thus a sustainable competitive advantage cannot be achieved (Davis et al., 2000). Although firms can enhance their strategies to minimize counterfeiting by implementing tactical adjustments designed for short-term advantage, they may unlikely sustain competitive advantage in long run. Therefore, a sustainable competitive advantage strategy seemingly shifts from traditional market strategies to internal organizational factors. Unlike market strategies, internal organizational attributes may both lead to higher performance and easier to sustain (Gordon & DiTomaso, 1992; Barney, 1986). For an internal characteristic to provide a sustainable competitive advantage, it must be valuable that could affect economic consequences, rare and difficult to be imitated (Hitt et al., 2001; Barney, 1986). Therefore, dynamic capabilities are the organizational antecedent and strategic routines by which managers alter their resource- acquire and shed resources, integrate them together, and recombine them- to generate new value creating strategies (Eisenhardt & Martin, 2000; Grant, 1996; Pisano, 1994). As such, dynamic capabilities are the drivers behind the creation, evolution and recombination of other resources into new sources of competitive advantage (Eisenhardt & Martin, 2000; Henderson & Cockburn, 1994; Teece et al., 1997).

Many internal firm characteristics have been considered to produce a sustainable advantage, as an example, culture. But culture may cause problems with its conceptual clarity and subsequently measurement, which has hindered efforts to empirically investigate its relationship with performance (Davis et al., 2000).

Another internal firm characteristic for its ability to produce an advantage is total quality management (TQM) (Barclay, 1993; Dean, 1994; Grossi, 1974; Menkhoff & Kay, 2000). TQM proponents argue that techniques such as competitive benchmarking, statistical process control, process redesign, and flow-charting create a sustainable advantage (Davis et al., 2000). Anyhow, Powell (1990) and Zulkifli and Jamaluddin (2000) disagree that TQM leads to an advantage, but they do support the view of some internal organizational characteristics that are difficult to be copied can produce an advantage. Therefore, internal characteristics appear to merit further investigation. In recent, one emerging internal characteristic of interest is trust (Davis et al., 2000).

2.4 Trust

In theoretical analysis, trust involves risk. Trusting relationships may have incentives, but risks are involved in the relationship (Barney & Hansen, 1994; Davis et al., 2000). A willingness to take risks may be one of the attributes of all trusting situations (Johnson-George & Swap, 1982). Mayer et al. (1995) described trust as a willingness to be vulnerable. When individuals take risks in relationships with others, they become vulnerable to the party they extend their trust (Barney & Hansen, 1994; Davis et al., 2000). Making oneself vulnerable to another implies that something of importance may be lost (Gambetta, 1988; Boss, 1978). Hence, Davis et al. (2000) define trust as willingness of a party (trustor) to be vulnerable to the actions of another party (trustee) based on the expectation. In other words, a trustee will perform an action important to the trustor regardless of the trustor's ability to monitor or control the trustee (Mayer et al., 1995). This definition implies the parties in a trusting relationship are identifiable and trustors make rational decisions with respect to what extent they are willing to risk and where they will be vulnerable to a given relationship (Barney & Hansen, 1994; Davis et al., 2000). In brief, trust is the extent to which one believes that others will not act to exploit one's vulnerabilities (Hansen, Morrow & Batista, 2002), and believes in the integrity, character and ability of each other (Robbins, 2003).

Whitener et al. (1998) define trust to reflect three facets. First, trust in another party reflects an expectation or belief that the other party will act benevolently. Second, one cannot control or force the other party to fulfill this expectation, that is, trust involves a willingness to be vulnerable and at risk that the other party may not fulfill the expectation. Third, trust involves some level of dependency on the other party so that the outcomes of one individual are influenced by the actions of another. In addition, Whitener et al. (1998) recognized that characteristics of managerial trust are as behavioral consistency and integrity, communication and expression of concern, sharing and allocation of control. Behavior consistency is perceived that the managers' behavior is predictable and reliable, whereas behavior integrity is perceived that management discloses the truth and keeps promises to employees (Butler, 1991; Mayer et al., 1995; Whitener et al., 1998). Sharing and allocation of decisive authority is often perceived as a demonstration of confidence, trust and respect, which management has in employees (Rosen & Jerdee, 1977; Whitener et al., 1998). Trust for management is high when employees are satisfied with their involvement, participation in organizational decision making processes and in determination of their work roles because it implies how the organization values their contributions (Ugboro, 2003).

Landry et al. (2002) referred trust as social capital and developed over time through repeated series of interactions. Thus, trust is referred in various ways (Hosmer, 1995). For example, Zimmer (1972) views trust as group, organization and society, whereas Barney and Hansen (1994) beheld trust at weak, semi-strong, and strong types. According to Gilbert and Tang (1998), trust will hold people together and give them a feeling of security, which is the core of all relationships. They further mentioned that trust is a fragile thing; it is generally earned and grows at a painfully slow pace, it can be destroyed in an instant. Trust is also a significant predictor of satisfaction with supervision and performance appraisal.

Hansen et al. (2002) view trust as having cognitive and affective dimensions. Cognitive-based trust such as interpersonal trust is that individuals choose who they trust and base this decision on what they believe are good reasons (Lewis & Weigert, 1985), whereas affect-based trust arises out of the emotional bonds that exist between individuals, in that these emotional bonds may eventually provide the basis for trust (Lewis & Weigert, 1985).

2.5 Antecedents of Trust for General Manager

Many factors lead to individual's willingness being at risk or vulnerable to another. Previous research suggested as few as one factor and as many as ten factors influencing the trusting relationship (Davis et al., 2000). Mayer et al. (1995) suggested three factors, ability, benevolence and integrity that provide unique perceptual perspectives from which to consider the general manager's trustworthiness. This framework has been adopted by a number of researchers investigating the antecedents of trust (e.g., Bauer & Green, 1996; Brockner et al., 1997). Gabarro (1978) indicated that integrity, competence and consistency of the subordinate were most important for a superior's downward trust in a subordinate. For a subordinate's upward trust in a superior, the integrity, motives, and openness of the superior were most prominent.

2.5.1 Ability

In order to trust another party, a trustor must perceive that the trustee possesses the ability or competence to accomplish a specific task (e.g., Butler, 1991; Cook & Wall, 1980; Hosmer, 1995). Ability is defined as group of skills, attributes and competencies that enable a party to have influence in a certain area (Davis et al., 2000; Ridings et al., 2002). For a general manager to be trusted, employees must perceive the general manager has the skills and aptitude to make a difference for them. If a general manager is perceived to be able to resolve a particular problem, the general manager is likely to be more trusted. Employees who perceive their general manager have high ability believe that their general manager has the knowledge and skills to influence their work lives in a positive way.

2.5.2 Benevolence

Benevolence is the expectation that others (i.e., trusted parties) will have a positive orientation or a desire to do good to the trustors (Ridings et al., 2002). In contrast, benevolence represents a positive personal orientation of the trustee to the trustor (Davis et al., 2000). According to Whitener et al. (1998), benevolence demonstrates concern for the welfare of others, which is part of trustworthy behavior and consists of three actions. First, it shows consideration and sensitivity for employees' needs and interests. Second, it acts in a way that protects employees' interests. Third, it refrains from exploiting others for the benefit of one's own interests. These actions may lead employees to perceive their general manager as loyal and benevolent. Thus, if the general manager deviates on behalf of employees and is more likely to be trusted, employees will perceive more that the general manager has their best interests at heart (Davis et al., 2000). Jones et al. (1975) suggested that trust in a leader is affected by which the leader's behavior is relevant to the individual's needs and desires. Leaders who showed consideration towards followers had higher follower's trust than those that did not (Korsgaard et al., 1995).

2.5.3 Consistency

Consistency such as reliability or predictability is an important aspect of trust. Trust reflects the willingness to be vulnerable to the actions of another party and the willingness to take risks (Mayer et al., 1995). If general managers behave consistently over time and across situations, employees can better predict general managers' future behavior and their confidence in their ability to make such predictions should increase. Essentially, employees become willing to take risks in their work or in their relationship with their general manager (Whitener et al., 1998). Thus, predictability and positive behavior reinforce the level of trust in the relationship.

2.5.4 Integrity

Integrity is the reputation for honesty and trustfulness on the part of the trusted individual (Hosmer, 1995). Ridings et al. (2002) further elaborate that integrity is the expectation that another will act on socially accepted standards of honesty or a set of principles that the trustor accepts. In particular, perception of an employee on a general manager adheres to a set of acceptable principles. For example, general managers must have the behavior of telling the truth and keeping promise (Whitener et al., 1998). Factors such as consistency on honesty and fairness contribute to the employee's perception on integrity of a general manager. Many authors had hypothesized that constructs similar to integrity are associated with trust (e.g., Butler, 1991; Lieberman, 1981). Thus, employees may be more likely to trust their general manager if they believe that the general manager has integrity. Even if an employee does not like a particular managerial decision, the employee may still trust the general manager if the employee believes the general manager is just honest and fair (Davis et al., 2000).

2.5.5 Managerial Perceived Discretion and Power

Managerial discretion is defined as the decision-making latitude held by executives (Magnan & St-Onge, 1997). It refers to managers' ability to affect important organizational outcomes, which is a function of the task environment, the internal organization and managerial characteristics (Carpenter & Golden, 1997). It can be characterized by four attributes of a firm's strategic orientation and environmental uncertainty: i) the range of options available to executives; ii) the programmability of their behavior; iii) the ambiguity of the relationship between cause and effect; and iv) uncertainty surrounding outcome (Magnan & St-Onge, 1997). The environment surrounding SMEs is complex and rapidly changing. With a high level of managerial discretion for managers, the firm's overall performance is volatile and hard to predict due to their decision-making has few constraints; their behavior and decisions are difficult to predetermine; and the impact of their actions is not easily observable (Magnan & St-Onge, 1997). Specifically, perceptions of managerial discretion predict managerial power. Managerial power is defined as the ability to influence others and is important due to the ambiguity and uncertainty surrounding strategic issues

(Carpenter & Golden, 1997). Carpenter and Golden (1997) suggest that managers, in part through impression management activities and their ability to attend to critical contingencies, may both increase their power and enlarge their latitude for action.

General managers may perceive themselves as having much discretion and as powerful. However, if others do not recognize them as powerful, they are not powerful (not being able to influence others). In brief, managerial power is an inter-person phenomenon, whereas perceived discretion is an intra-person phenomenon (Carpenter & Golden, 1997). Thus, employees may be more likely to trust their general manager if they believe that the general manager has high managerial discretion and power.

2.5.6 Participative Leadership Style

Costigan et al. (1998) noted that participative leadership (role shifts from person to person depending on the task stage and nature of the skill set required) has replaced the "follow-me" type of leadership typical of the past. In participative leadership, subordinates share a significant degree of decision-making power with their immediate superiors (Robbins, 2003). Participative management has positive effects on performance, productivity and job satisfaction because it fulfills three basic human needs: increased autonomy, increased meaningfulness and decreased isolation (Nyhan, 2000). Participation in decision making means managers are willing to involve employees in decision making and employees perceive that their involvement is meaningful.

Today, the practice of empowerment on self-managed teams requires management to entrust the workforce with responsibility and authority. Conversely, employees express trust in managers and in co-workers by accepting these additional elements of their work roles (Nyhan, 2000). Team-based organizations are anticipated to outperform traditional bureaucratic structures when it comes to producing quantity and quality, making adaptive changes and developing employees (Nyhan, 2000). When supervisors are highly supportive (e.g., showing concern for the subordinates' ideas and feelings), it enhances employee initiative at work. On the other hand, an autocratic and controlling leadership style, which is consistent with McGregor's Theory X produces less employee initiative and self-determination (Costigan et al., 1998). Thus, the vertical trust between the supervisor and subordinate, which may be more in attendance with a supportive leadership style, may spur employees' performance (Whitener et al., 1998). Thus, employees may be more likely to trust their general manager if they believe that the general manager inherits the participative leadership style.

2.5.7 Openness

Openness is a mental accessibility or the willingness to share ideas and information freely with others (Hosmer, 1995; Robbins, 2003). Affected-based trust is grounded in an individual's attributions concerning the motives for others' behavior, it should be limited to contexts of frequent interactions that lead to open communication, where there are sufficient social data to allow the making of confident attributions (McAllister, 1995). Furthermore, open communication, in which managers exchange thoughts and ideas freely with employees, enhances perceptions of trust (Whitener et al., 1998). Hence, the more openness of a general manager in frequent interactions with employees, the employees may be more likely to trust their general manager that subsequently enhances their performance.